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SENSITIVE  
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SUBJECT: THE QUEBEC SPONSORSHIP SCANDAL AND ITS AFFECT ON NATIONAL  
UNITY

1. (SBU) Summary: The scandal involving misuse of public funds for shoring up federalism in Quebec has caused a strong drop in support for federal Liberals in Quebec and a concurrent surge in support for the Bloc Quebecois. Quebecers are angry at what they perceive as "Quebec-bashing." Jean Charest and the provincial Liberal party have so far remained above the fray and are distancing themselves from their federal counterparts, although there are indications that the scandal may get worse. Charest's vision of a new era of federalism is being sorely tested, but Quebec's initiative on forming a Council of the Federation will go on, with the next meeting taking place in Vancouver February 23-24. End Summary.

2. (SBU) Prime Minister Paul Martin passed through Quebec February 16 for damage control on the sponsorship scandal and to stop the hemorrhage of public support for the Liberals. In a recent Leger Marketing poll, 75% percent of Quebec respondents thought that Martin knew about the subsidies, or at least, should have known. A February 11-12 CROP poll showed a drop in support for federal Liberals in Quebec to 35%; the Bloc Quebecois showed 47% support. President of the National Assembly Michel Bissonet (PLQ) admitted to CG Keogh February 20 that the Bloc might gain around 20 seats in the next general election because of the scandal. Note: February 17, Minister for Natural Resources Sam Hamad downplayed the depth of negative public reaction, telling CG the Bloc is an "empty" party, where voters temporarily park their votes when they are mad at the government. End Note.

3. (SBU) Bissonet said that Quebecers are angry and offended for having been implicated in a flag-waving campaign that went wrong, and that has set off the Canadian blame-game that is cynical about bending over backwards to placate Quebec separatists. Politicians in Quebec wince over the image of a corrupt political culture in the province, with its invidious comparison to European politics. They tend to dismiss the current outcry as "Quebec-bashing," although they acknowledge that political scandals relating to countering separatism have a long history in Quebec. Certainly, the logic of heavy federalism behind the subsidies scandal has never gone down well with the provincial Liberals. Jean Charest has been at pains to emphasize his loyalty to Quebec and determination to defend the province's interests. He was not close to former PM Chretien. Embattled at home, Charest Liberals are now distancing themselves from Martin Liberals who have become a liability for the PLQ, and vice versa.

4. (SBU) In a February 17 editorial interview with Le Solely, Martin insisted heads would roll if they were implicated in impropriety. Among provincial names mentioned prominently in the press in the scandal are Jean Pelletier, head of ViaRail and former Chief-of-Staff for Chretien, Andre Ouellet, head of Postes Canada, and Michel Vennat of the Banque du Developpement du Canada. Local press have reported on criticism of Minister for Heritage Canada Helene Scherrer, who had dealings with one of the implicated companies, Groupaction, to manage a \$250,000 sponsorship for the World Junior Downhill Ski competition in the Quebec region (allegedly the firm was paid a \$30,000 commission to show the Canadian flag in and around the site).

5. (SBU) Scherrer strongly denied any impropriety in a February 18 conversation with CG. "I was not even elected when involved in the ski event. The program was there for people to use. If anyone had known about malfeasance, they would not have touched the money." As for the Bloc Quebecois gaining from the scandal, Scherrer accused Bloc Chief Gilles Duceppe of encouraging groups in his riding to apply for federal funds - \$1.9 million in FY2001-2, \$2.3 million in FY2002-3 - "when he was supposed to know something fishy was going on."

6. (SBU) So far the provincial Liberal Party (PLQ) has escaped direct involvement in the scandal, and continues to promote its vision of Quebec finding a new place in Canada. February 19, at a meeting of Consuls General in Quebec, Charest insisted: "this government has nothing to do with it." He called the scandal "shocking" but said the storm would pass. Norman MacMillan, President of the Liberal Caucus, insists that the PLQ, including Jean Charest and his entourage, had no knowledge of the accounting fraud. He noted the worst excesses took place in 1997 after the failed sovereignty referendum. At that time, Charest was head of the federal Conservative Party, in opposition to the Liberals. Respected journalist Alain Dubuc (former chief

editorialist of La Presse, now Editor of Le Soleil) concurs that Charest had no involvement in the federal sponsorship scam.

17. (SBU) Of course, rumors abound. One high-level government contact hinted to CG that the revelations so far are the tip of the iceberg and that the PLQ will eventually be implicated. While some commentators point out that Charest himself is relatively insulated from the scandal, others insinuate that the weak link is Groupe Everest, one of the companies involved in the scandal, which managed Charest's 1997 campaign. MNA Bissonet believes the scandal will deeply undermine the Martin forces in the province and said the scandal could have a "Watergate" dimension.

18. (SBU) Until the recent scandal, political observers here have tended to characterize Quebec Liberals as a house divided: federalist Liberals, either in the Chretien or Martin camps, center-left Bourassa Liberals, conservative Charest Liberals. One result of the current scandal, however, has been public papering-over traditional divisions. There is less evident partisanship. Charest told the recent CG gathering that his three main priorities relate to the demographic problems of an aging population, "fiscal imbalance"/budget priorities, and promoting cultural diversity. On the latter point, he noted the federal government has been the main supporter of cultural institutions in Quebec, e.g. Radio Canada, and that if federal monies dried up it would cause a lot of problems.

19. (SBU) Quebec's initiative on forming a Council of the Federation will go on, however. Minister of Intergovernmental Affairs Benoit Pelletier told CG February 19 that all Provincial and territorial premiers (possibly with the exception of Nunavut) will be meeting February 23-24 in Vancouver. This 5th reunion/first full meeting of the Council will create a Secretariat to be based in Ottawa, a body to handle fiscal

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imbalance, and will agree on a common agenda. Asked if relations with Ottawa have been affected by the subsidies scandal, he confirmed it would complicate relations, in that Ottawa might not want to make any concessions to Quebec in the current environment. Negotiations with Health Minister Pettigrew are not yet arranged. "Everything is on hold because of the scandal," but Pelletier said he thought things would work better after the federal elections.

110. (SBU) Comment: Charest is keen to propagate new relations with the rest of Canada's provinces and with Ottawa and to promote national unity, although not at Quebec's expense. His vision of a new era of federalism is being tested by the sponsorship scandal; the widespread cynicism over political corruption that it has engendered is obviously a source of frustration as the Quebec Premier tries to establish a new place for Quebec within Canada and on the international scene. Charest does have the advantage - unlike PM Martin - of time. He knows where he wants to go. With 4 years of his mandate still ahead of him, he is focused on mending fences with some of the civic groups he alienated through precipitous legislation at the end of 2003. After the elections, if the Liberals regain power, and if Martin is the leader, he also hopes to renegotiate Quebec's place on the international scene. Some of these larger visions may go on hold though if indeed the subsidies scandal continues to grow. Quebecers are likely to insist on individuals being held accountable.

KEOGH